

Cultural Intelligence of SME's Leaders involved in Internationalization Processes

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Abstract

In the globalized world, SMEs' decision makers inevitable face a number of challenges in pursuing their going international process. Success of SMEs ongoing internationalization depends on the capabilities and competencies of individuals that engage in decision making. This research investigates whether or not decision makers develop their cultural intelligence (CQ) while involved in the going international process of the SME they are working for. Cultural intelligence (CQ) is defined as “an individual’s capability to function effectively in situations characterized by cultural diversity”. An online survey was conducted in Switzerland in 2015. The number of returned survey was 75 in total. After filtering for only respondents who completed the survey, 53 respondents are qualified and their information obtained from the survey are used for the analysis. The paper’s quantitative investigation clarifies SME decision makers’ cultural intelligence profile and shows that people who are involved in internationalization decisions have a significantly higher level of cultural intelligence.

Keywords: cultural intelligence, SME internationalization, decision making, leadership capabilities

Introduction

The last 25 years were characterised by a worldwide movement of increasing social and cultural interconnection, political interdependence, as well as economic and financial market integration (Eden and Lenway, 2001, p. 387). According to Friedman (2005), globalization formed a level playing field which invites and empowers new groups of entrepreneurs (p. 5). Among those new groups of entrepreneurs belong also the small and medium sized enterprises (SMEs). Free trade agreements, increasing competition, and global consumer demands present new opportunities as well as challenges.

In order to take advantage and face those challenges, SMEs encounter high pressure of going global. According to Paunović and Prebezac (2010), local SMEs which are reluctant to internationalize their business will not be able to keep up in the new emerged environment (p. 59). In SMEs there is usually one decision-maker, who is the

entrepreneur. This is the central actor who leads the international expansion and guides strategic decisions (Musso and Francioni, 2012, p. 281). Thus, the decision maker's personality, his knowledge, intercultural attitude, and motivation play a remarkably important role in terms of internationalization decisions (Paunović and Prebezac, 2010, p. 67). In other words, the decision maker's cultural intelligence makes the difference for a successful SME going international.

This research asks the question if individuals develop their cultural intelligence CQ while involved in the going international process of the SME they're working for. More specific, an online questionnaire examines respondent's level of CQ. The researchers assumed that the level of CQ is significantly higher for those leaders involved in SME's internationalization process. The paper's investigation clarifies the SME decision maker's cultural intelligence profile and shows that people who are involved in internationalization decisions have a significant higher level of cultural intelligence.

Review of Literature

The decision making power within an SME is usually concentrated in the hands of one person or a group of few people; and quite often it's just the owner of the company. Thus, strategic decisions regarding the internationalization of the company are inclined to be the direct responsibility of one SME decision maker (Reid, 1981, p. 102). Besides knowing how to run a business or having an extended knowledge of the business area, being capable of managing cultural and structural differences and building up social relationships are essential individual abilities and personality characteristics of the decision maker in terms of successfully launching the enterprise into a new market (Bird et al, 2010, p. 818). In other words how an SME performs internationally is not only a function of the accessibility of resources, but also of the manager's characteristics and capabilities (Chandler and Hanks, 1994, cited in Hutchinson, Quinn, Alexander, 2006, p. 514). For an SME with the intention of going global, it is crucial to find an interculturally experienced decision maker with a certain profile of capabilities e.g. a "culturally intelligent" decision maker. According to Earley and Mosakowski, (2004), the level of the entrepreneur's cultural intelligence decides whether a company is successful or fails in an international environment (p. 154). The concept of cultural intelligence (CQ) has been introduced by Earley and Ang (2003) and is defined as "an individual's capability to function effectively in situations characterized by cultural diversity" (Ang and Van Dyne, 2009, p. XV).

Role of Cultural Intelligence for SME internationalization decisions

With the diversification of the workforces, and internationally focused companies, understanding why some global managers function more effectively than others in a cultural diverse setting has become increasingly important during the last decades (Gelfand, Erez, and Aycan, 2007, p. 482). The CQ construct helps to identify a person's

intercultural intelligence and is a critical leadership competency for those with cross-border responsibilities (Rockstuhl, Seiler, Ang, Van Dyne, and Annen, 2011, p. 825).

The following four CQ dimensions show how a cultural intelligent decision maker is recognized:

Cognitive Intelligence: Through educational and personal experiences a cultural intelligent decision maker knows the norms, practices, and conventions of his own culture and the cultures of his business partner (Ang and Van Dyne, 2008, p. 5). With regards to the decision making process in terms of SME internationalization, an intercultural intelligent SME manager knows the economic and legal system, norms for social interaction, religious beliefs, aesthetic values, as well as the languages of other cultures (Van Dyne, Ang, and Nielsen, 2007, p. 346). This enables the manager to take effective decisions in intercultural settings based on his knowledge.

Metacognitive Intelligence: Cultural intelligent decision makers recognize and understand different cultural situations (Kim, Kirkman, and Chen, 2008, p. 72). Thereby, SME managers are conscious of how their own culture influences their behaviour, and furthermore, they are aware that their own culture affects the way they understand intercultural situations (Triandis 2006, cited in Van Dyne, Ang, Ng, Rockstuhl, Tan, and Koh, 2012, p. 298). In terms of the internationalization decision in SMEs, SME managers are aware about the influence of their culture in their decision making style. This allows managers to reflect their decision making style and as a consequence develop or implement completely new decision making routines which enhances the internationalization of their companies.

Motivational Intelligence: Decision makers with cultural intelligence are motivated to engage themselves in intercultural settings. Meaning, they are interested in experiencing other cultures and interacting with people from different cultures (Van Dyne, Ang, and Nielsen, 2007, p. 346). Within the context of internationalization of SMEs, SME managers are capable of directing their energy and attention towards learning about as well as functioning in foreign markets (Ang and Van Dyne, 2008, p. 6). Thus, leaders with high CQ are more willing take the initiative to internationalize their company.

Behavioural Intelligence: Decision makers with cultural intelligence are capable of demonstrating appropriate verbal and nonverbal actions when interacting with persons from different cultures (Earley and Ang, 2003, p. 162). Verbal and nonverbal behaviours are the most prominent features of social interactions (Ang and Van Dyne, 2008, p. 7). Internationalizing a company demands high social interactions in an intercultural context. Therefore, cultural intelligent decision makers have higher self-confidence in terms of internationalizing their company.

Research Question

Based on the concept of Cultural Intelligence (CQ) the paper compares SME decision makers' CQ who are and who are not involved in the internationalization decisions or involved in the internationalization process of their company. The paper's investigation clarifies SME decision maker's cultural intelligence profile and examines if individuals develop their cultural intelligence CQ while involved in the going international process of the SME they're working for. It is assumed that the level of CQ is higher for those leaders who are involved in successful decisions in SMEs going international.

Methodology

For this study an online-survey was composed based on the already existing and academic validated 20-item scale to measure CQ: The cultural intelligence scale (CQS), developed by Van Dyne, Ang, and Koh (2008). The theoretical population of interest are SME managers. Out of this population a sample consisting of around 8000 members of the "KMU Swiss Verband" (Swiss SME Union) was drawn. Those KMU Swiss members have been approached by the monthly newsletter of the KMU Swiss Verband. An additional sample consisting of 200 MBA students working for SME was drawn. This additional sample's purpose to the core sample is to compare and validate the results.

A hypothesis is formulated with the regard to the assumption that there is a difference between groups of persons who are responsible for going international decisions and groups of persons who are not responsible for this kind of decision. More precisely the hypothesis refers to the assumption that for people who were or are involved in the SME internationalization process the level of cultural intelligence is expected to be higher than those who are or were not involved.

H01: For SME decision makers who are, or were, involved in the internationalization decision processes of the SME, the level of CQ is the same as for persons who are or were not involved in these processes.

In order to answer the research question and confirm or reject the hypothesis, methods of inferential statistics were used. Furthermore, descriptive statistics was used to describe the sample. Thereby, the statistics software package SPSS was used as a tool. The questions, which lead to those statistical results, were asked through an online-based survey. Therefore, EFS, the online survey tool, was used to create the anonymous survey.

Findings

The number of returned survey was 75 in total. Table 1 illustrates that out of the 8000 approached SME managers 16 participated and qualified which results in a ratio of 0.20%. The number of surveys completed by MBA students was more satisfactory. From the former and active MBA students, each with 200 potential respondents, 37 MBA students working for SME participated and qualified, giving a ratio of 18.5%.

Table 1.

Total Participants

Function	Approached	Participated	%
KMU Swiss SME Manager	8000	16	0.20%
SME MBA students	200	37	18.5%
Total	8200	53	0.65%

Interestingly out of the total of the 16 SME managers (“Swiss KMU Verband”), 11 were also former MBA students the sample is slightly different distributed. This means that only 5 participants are “solely” SME managers and 11 are actually SME managers and (former) MBA students.

Involvement in internationalization decisions:

The question deals with the issue whether the participants were, or are at this very moment, actively involved in the decisions regarding the internationalisation process of the company they are working for. Out of the 53 respondents 14 (26%) are, or were, actively involved in the internationalisation process of their company and 39 (74%) are, or were, not involved. For KMU Swiss Members 9 of 16 are involved in decisions of internationalization where 7 are not. Whereas for MBA students only 5 of 37 showing responsible for internationalization processes.

Level of CQ:

Figure 1 illustrates the histogram of the participants’ level of CQ. The y-axis shows the number of respondents, whereas the x-axis shows the level of CQ. Thus the histogram shows how frequent (how many participants) a certain CQ level has been reached. On average the 53 respondents reached a CQ level of 5.1 with the highest possible level of 7 and the lowest 1.

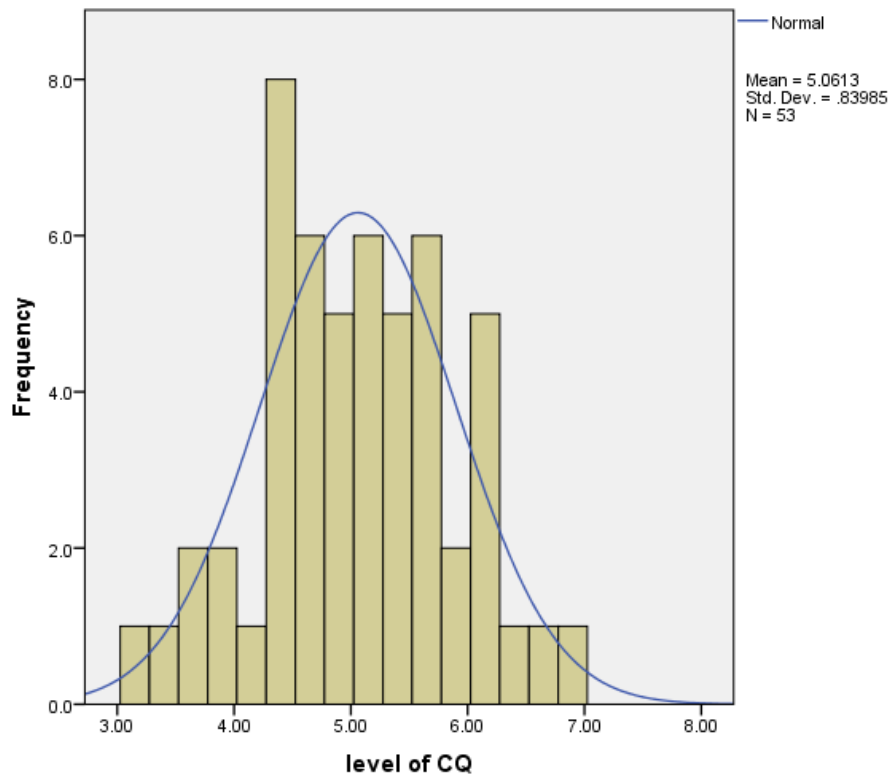


Figure 1 The Histogram of the Participants' Level of CQ

Comparing the CQ between KMU managers and MBA students, it turned out that MBA students yield a CQ mean of 4.90 for the 37 MBA students, whereas the 16 KMU Swiss managers' CQ mean of 5.44. Hence, the KMU managers have on average a higher level of CQ.

In order to find out how the average level of CQ is computed, the 4 different dimensions of CQ are investigated. Table 2 describes that on average the respondents' level of the behavioral CQ is with 5.3 the highest, closely followed by the level of the metacognitive and motivational CQ with an average of 5.28 for the first mentioned and 5.21 for the later. The level of the participants' cognitive CQ is clearly the lowest with an average of 4.57. Furthermore, it is observable that there was at least one person who achieved the maximal level of 7 on all 4 different dimensions. In terms of the minimum, Table 2 shows that the lowest level one person reached was an average of 2.4 for the behavioral CQ, 1.83 for the cognitive CQ, 3.25 for the metacognitive CQ, and 2.2 for the motivational CQ.

Table 2

Means of CQ Dimensions

	N	Minimum	Maximum	Sum	Mean	Std. Deviation
Level of Behavioural CQ	53	2.40	7.00	281.20	5.3057	1.05583
Level of Cognitive CQ	53	1.83	7.00	242.33	4.5723	1.14191
Level of Metacognitive CQ	53	3.25	7.00	276.25	5.2123	.90192
Level of Motivational CQ	53	2.20	7.00	280.00	5.2830	1.02764
Valid N (listwise)	53					

Results for the hypothesis

H01: For people who are, or were, involved in the internationalisation process of the company, the level of CQ is the same as for persons who are or were not involved in the process

In order to test this hypothesis a Mann Whitney U-Test was conducted. By comparing Tables 3 and 4, it becomes apparent that those respondents who are, or were, involved in the decision making process regarding the internationalisation of their company have in general a higher level of CQ (5.61 vs 4.86) compared to the ones who are, or were, not involved in this decision making process.

Table 3

Mean Comparison- Involved in the Internationalisation Process

	N	Minimum	Maximum	Mean	Std. Deviation
Level of CQ	14	4.05	6.95	5.6107	.74218
Valid N (listwise)	14				

Table 4

Mean Comparison – Not Involved in Internationalisation Process

	N	Minimum	Maximum	Mean	Std. Deviation
Level of CQ	39	3.15	6.75	4.8641	.79098
Valid N (listwise)	39				

Table 4 yields that the p-value is 0.3% for the level of cultural intelligence and, therefore, lower than the significance level of 5% (p-value: $0.003 < 0.05$).

Table 5

Significance – Involved in Internationalisation Process

	Level of CQ
Mann-Whitney U	130.000
Wilcoxon W	910.000
Z	-2.886
Asymp. Sig. (2-tailed)	.004
Exact Sig. (2-tailed)	.003
Exact Sig. (1-tailed)	.002
Point Probability	.000

This means that the null-hypothesis can be rejected regarding the level of CQ. Thereby, it's possible to state that the participants who are, or were, involved in the decision making of their company's internationalisation process tend to have a higher level of cultural intelligence than those who responded with no to this question.

Conclusion and Limitations

Out of the 53 respondents, 14 (26%) are, or were, actively involved in the decision making process regarding the internationalisation of their companies, and 39 (74%) are, or were, not involved. The results from the hypothesis test yield that the level of CQ is higher and significant for those who are involved in this process. Since CQ is a person's capability to adjust to different cultural settings (Earley and Ang, 2003, p. 9), settings which exist in the international business context, this result was expected. Since international companies create settings where members from diverse cultural backgrounds are brought together (Earley and Ang, 2003, p. 233), it is assumed that people who are working for such a company have a higher level – or develop a higher level – of CQ than people who are not confronted with those settings.

Since only few SME managers participated in this quantitative research project it is difficult to take definite conclusions. But nevertheless findings seem worth to be mentioned: People who are, or were, involved in internationalization decisions have a statistically significant higher level of CQ than people who are, or were, not. Whereas this finding can just be the beginning future research should take several characteristics of the SME manager into consideration. For example, it should be questioned if the personal experiences of SME managers working for the internationalization for their company lift up their level of cultural intelligence. In other words, is it possible to learn cultural intelligence and if yes how that could be managed effectively? Further investigations may be conducted according to the generations of the decision makers. Younger, e.g.

generation Y-managers may adapt faster to international business as they grew up in a more globalized world compared to the older generation. However, the experience of the older generation may be a factor that gives them an advantage in unknown and rapidly changing environments (Sinclair and Ashkanasy, 2005, p. 6). Besides investigating further the personality characteristics of SME managers, future research could also take the size of the SMEs into consideration that may influence the degree of freedom of a decision maker. Last but not least, it would be interesting to focus on how the level of education e.g. MBA or International Executive MBA programs may influence the level of CQ of next generation leaders dealing with globalization.

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